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January 31, 2018

Jim Christoffersen, Esq.
General Counsel
9th Floor, Andrew Jackson Building
502 Deaderick Street
Nashville, TN 37243

Via Email - Jim.Christoffersen@tn.gov

Re: CN1603-012, Erlanger Behavioral Health - Request for Inclusion on the General Counsel's Report agenda item at the 2/28/2018 HSDA meeting regarding change of ownership percentages in the Applicant, Erlanger Behavioral Health, LLC

Dear Mr. Christoffersen:

As you know, this firm represents Erlanger Behavioral Health, LLC, the applicant in CON No. CN1603-012 for the establishment of the mental health hospital known as Erlanger Behavioral Health, LLC in Chattanooga, Hamilton County, Tennessee.

As we discussed today over the phone, the CON application for this project and the presentation of its CON application at the HSDA meeting on August 24, 2016 set forth a process by which the ownership percentages in the applicant limited liability company may change, based on the subsequently determined relative values of the contributions by the two members of the LLC, Erlanger Health System ("EHS") and Acadia Healthcare Company, Inc. The original membership structure was that, as noted in this CON application, EHS held 51% of the membership interests in the LLC while Acadia held the other 49% of the membership interests in the LLC.

The contribution agreement of the parties to the LLC in the CON application indicated that the membership interests in the LLC by the parties would be "adjusted to reflect the relative fair market value of their capital contributions to the Company."

After the conclusion of the CON proceedings, the applicant has proceeded to develop this mental health hospital in Chattanooga. Currently it is expected to receive its certificate of occupancy on or about May 9, 2018. Since the relative contributions of the parties to the project have been made more definable by the construction progress and the imminent completion of the project, the parties to the LLC have determined to begin the Medicare certification filing and process in early March 2018 in order to avoid undue delays in the commencement of these much-needed psychiatric hospital services upon construction completion in early May 2018.

Therefore, the members of the LLC have decided to proceed with the evaluation of the relative contributions to the LLC of the parties and now seek approval by the HSDA of a re-valuation of their

Jim Christoffersen, Esq.
January 31, 2018
Page 2

relative percentage interests in the LLC, in order to expedite the Medicare certification process so that delays on licensure and placing into service of the hospital can be minimized.

Pursuant to a fair market value appraisal, the parties have determined that the reallocated membership interests in the LLC should be as follows: that 80% of the membership interests in the LLC be allocated to Acadia, and 20% to Erlanger Health System. The LLC now respectfully requests that the HSDA approve the reallocation of the membership interests as described above, and as discussed in the CON application and the presentation to the HSDA when the CON was granted in August 2016.

The Acadia interests have been assigned by Acadia Healthcare Company to its wholly-owned subsidiary, Acadia Chattanooga Holdings, LLC. Acadia Healthcare Company will guarantee the prompt and faithful performance and observation by Acadia Chattanooga Holdings, LLC of each and every obligation, covenant and agreement made by Acadia and its subsidiary in the documents of the applicant LLC.

As discussed by the applicant in the CON application and at the presentation of the CON application before the HSDA in August 2016, Acadia provides financial strength to the project, satisfying the HSDA's criteria of economic feasibility, contribution to orderly development and the satisfaction of the rules and statutes of the HSDA.

On behalf of Erlanger Behavioral Health, LLC, we respectfully request that this modification request be placed on the HSDA's February 28, 2018 agenda in the General Counsel's report section of the Agenda. We respectfully request that the HSDA approve the percentage ownership changes proposed in this request. If you have any questions, please advise.

Sincerely,

BAKER, DONELSON, BEARMAN,
CALDWELL & BERKOWITZ, PC



William West

WHW/mhh

cc: Jerry Taylor, Esq.

Original

ADDITIONAL
INFORMATION

Erlanger Behavioral
Health, LLC

CN1603-012



APR 20 16 04:03

April 19, 2016

Melanie Hill, Executive Director
Tennessee Health Services & Development Agency
502 Deaderick Street
Jackson State Office Bldg., 9th Floor
Nashville, TN 37243

RE: Erlanger Behavioral Health, LLC
CON 1603-012

Dear Ms. Hill:

Enclosed are three copies of information to supplement our previous response with respect to the above referenced CON.

Please let me know if you have questions or need further information.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joe Winick", with a large loop at the end.

Joseph M. Winick, FACHE
Senior VP Planning, Analytics & Business Development

**UNANIMOUS WRITTEN CONSENT ACTION
OF THE DIRECTORS OF
ERLANGER BEHAVIORAL HEALTH, LLC**

The following actions are taken and the following business is transacted by the unanimous written consent of the directors (the "**Directors**") of Erlanger Behavioral Health, LLC (the "**Company**"), as of April 18, 2016 pursuant to the Tennessee Limited Liability Company Act.

WHEREAS, the Directors are aware of that certain Contribution Agreement (the "**Contribution Agreement**") between Company and Acadia Healthcare Company, Inc., a Delaware corporation ("**Acadia**"), in substantially the form attached hereto as **Exhibit A**, which contemplates the Company's issuance of a forty-nine percent (49%) membership interest in the Company in return for a cash payment of One Dollar (\$1) and the capital commitment to fund the design and construction of a new 88-bed inpatient psychiatric facility, as more particularly described in the Contribution Agreement (the "**Contribution**");

WHEREAS, the Directors have determined that the Contribution and related issuance of membership interest is in the best interest of the Company; and

WHEREAS, the Directors deem it advisable, desirable, and in the best interest of the Company to approve and authorize the Contribution Agreement and all other instruments and documents necessary or desirable in effecting the Contribution and the other transactions contemplated by the Contribution Agreement.

NOW THEREFORE, BE IT RESOLVED, that the Directors hereby approve and authorize the Contribution and in connection therewith, approve and authorize the execution of the Contribution Agreement on behalf of the Company, as well as any other instruments and documents necessary or desirable in effecting the Contribution;


FURTHER RESOLVED, that the Directors hereby approve and authorize the execution and delivery by any Authorized Officer (as hereinafter defined) of the Contribution Agreement with such additional changes as such Authorized Officer reasonably believes are in the best interest of the Company, and any other instruments and documents necessary or desirable in effecting the other transactions contemplated by the Contribution Agreement;

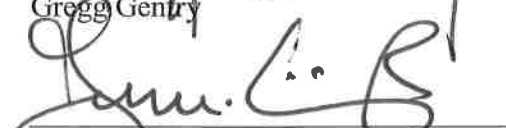
FURTHER RESOLVED, that Robert Brooks, FACHE, Jeff Woodard, Britt Tabor, FACHE, Gregg Gentry, and Joseph Winick (each an "**Authorized Officer**") be, and each of them hereby is, authorized and directed, from time to time and in the name and on behalf of the Company, to do and perform all acts, to make, execute, deliver, certify, or file all such agreements, certificates, instruments, deeds, leases, assignments, notices, and other documents as may be required by, or as such officer or officers deem necessary, proper, or desirable in connection with, the performance by the Company of the foregoing resolutions, to pay such fees required by or in furtherance of the foregoing resolutions, and to take all such other steps as they may deem necessary, advisable, or convenient and proper to carry out the intent of this and the foregoing resolutions, all such actions to be performed in such forms as such officer or officers shall approve and the performance or execution thereof by such officer or officers shall be conclusive evidence of the approval thereof by such officer or officers and by these Directors;

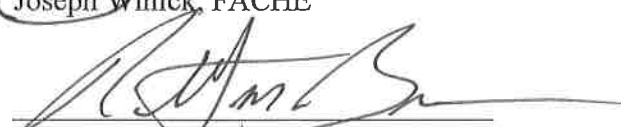
FURTHER RESOLVED, that any and all lawful actions previously taken by any Authorized Officer of the Company in connection with the transactions contemplated by the foregoing resolutions are hereby adopted, ratified, confirmed and approved in all respects as the acts and deeds of the Company.


IN WITNESS WHEREOF, the undersigned, being all of the Directors of the Company, have executed this written consent, which may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, each of which counterpart originals may be executed by signatures transmitted by facsimile transfers, and such facsimile transfers will be considered to be original signatures, effective as of the date first above written.

DIRECTORS:


Gregg Gentry


Joseph Winick, FACHE


Robert Brooks, FACHE


Jeff Woodard


Britt Tabor, FACHE

Written Consent Action of Erlanger Behavioral Health, LLC

Exhibit A

Contribution Agreement

(see attached)

CONTRIBUTION AGREEMENT

To Erlanger Behavioral Health, LLC:

1. General. This Contribution Agreement (the "Agreement") is presented to Erlanger Behavioral Health, LLC, a Tennessee limited liability company (the "Company"), by Acadia Healthcare Company, Inc., a Delaware corporation listed on the New York Stock Exchange (the "Investor"), for the purposes of subscribing for, and to induce the Company to issue to the Investor, a forty-nine percent (49%) membership interest in the Company (the "Membership Interest") in exchange for One Dollar (\$1) and the Capital Commitment (as defined in Section 2).

2. Capital Commitment. Investor commits to provide cash necessary to fund the architecture, engineering, design and construction of a new 88-bed inpatient psychiatric facility (the "Facility") which amount is anticipated to be approximately \$25,000,000, more or less. Upon the completion of the Facility, the membership interests in the Company held by Erlanger Health System and Investor shall be adjusted to reflect the relative fair market value of their capital contributions to the Company. The value of Erlanger Health System's capital contribution shall be determined by an independent fair market value appraisal.

3. Line of Credit. Investor commits to provide a line of credit of up to \$5,000,000 to Company to finance: (i) working capital; (ii) general corporate purposes; and (iii) startup expenses. The line of credit will bear interest at a rate of prime plus 2%, due within 60 months and must be repaid prior to any distributions from the Company.

4. Transfer of Membership Interest. Investor agrees that it will not transfer, assign or encumber the Membership Interest without the prior written approval of the Company.

5. Investment Intent. The Membership Interest is being acquired for investment for the account of the Investor, with the intent that the Membership Interest shall be held for investment, without the present intent of participating directly or indirectly in a distribution of the Membership Interest, and without the participation of any other entity or person. The Investor understands that the representations and warranties contained herein are to be relied upon by the Company as a basis for the exemption of the issuance of the Membership Interest from the registration requirements of the Securities Act of 1933, as amended (the "Act"), and the exemptions from registration contained in applicable state securities laws. The issuance of the Membership Interest will not be registered under the Act or under any state securities laws, and the Membership Interest must be held by the Investor until (and the Company shall have no obligation to recognize any sale, assignment or other transfer thereof to any person unless) it is subsequently registered under the Act and under applicable state securities laws, or unless exemptions from the registration requirements of the Act and such laws are available and approved by counsel satisfactory to the Company. The Company is not obligated to register the Membership Interest under the Act or under any state securities laws. The Company is not obligated to take any action, except as may be required by law, necessary to make Rule 144 under the Act or any other method available for resales of the Membership Interest by the Investor.

6. Information and Disclosure. The Investor acknowledges that the Company has not prepared, and that it has not been requested by the Investor to prepare, a comprehensive written prospectus or disclosure statement in connection with the issuance of the Membership Interest, covering the business, operations, management, financial condition or prospects of the Company of the nature that otherwise might be required if the sale of the Membership Interest were required to be registered under

the Act. The Investor further acknowledges that the Company, prior to the date hereof, has furnished the Investor the opportunity to ask questions of and receive answers from the Company concerning the financial and business affairs of the Company and has afforded the Investor the opportunity to verify the accuracy of all information provided or made available to the Investor by the Company.

7. Assignment. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective successors and assigns.

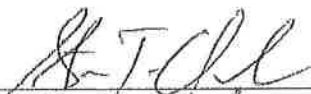
8. Controlling Law; Amendment; Waiver; Remedies Cumulative. This Agreement shall be construed and enforced in accordance with the laws of the State of Tennessee. This Agreement may not be altered or amended except in writing signed by the Company and the Investor. The failure of any party hereto at any time to require performance of any provisions hereof shall in no manner affect the right to enforce the same. No waiver by any party hereto of any condition, or of the breach of any term, provision, warranty, representation, agreement or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed as a further or continuing waiver of any such condition or breach or a waiver of any other condition or of the breach of any other terms, provision, warranty, representation, agreement or covenant herein contained.

9. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original. This Agreement shall become effective when one or more counterparts have been signed by each of the parties to this Agreement and delivered to each of the other parties to this Agreement.

[Signatures on following page]

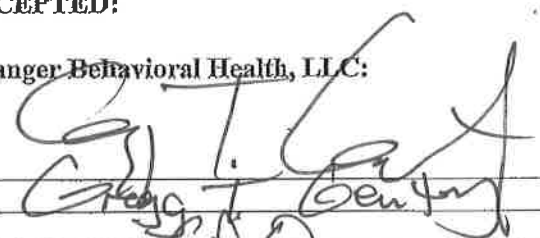
This Contribution Agreement is effective as of April 18, 2016.

Acadia Healthcare Company, Inc:

By: 
Its: Chief Development Officer

ACCEPTED:

Erlanger Behavioral Health, LLC:

By: 
Its: CEO

Dated: April 19, 2016



State of Tennessee

Health Services and Development Agency

Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

September 28, 2016

Joseph Winick
Senior Vice President
Erlanger Health Systems
975 East 3rd Street
Chattanooga, TN 37403

RE: Erlanger Behavioral Health - CN1603-012A

Dear Mr. Winick:

As referenced in our recent letter, please find enclosed your Certificate of Need for the above-referenced application that was approved at the August 24, 2016 meeting of the Tennessee Health Services and Development Agency.

The Health Services and Development Agency Rules require that an Annual Progress Report be submitted each year and a Final Project Report form is to be submitted within ninety (90) days after completion of a project which shall include completion date, final costs, and other relevant information in regards to the project, pursuant to Public Acts 2002, Chapter No. 780, § 16-11-1609(d). Also required is the registration of certain medical equipment pursuant to Tennessee Code Annotated § 68-11-1607(i), which states "*The owners of the following types of equipment shall register such equipment with the health services and development agency: computerized axial tomographers, magnetic resonance imagers, linear accelerators and positron emission tomography.*" "*The survey shall include but not limited to the identification of the equipment and utilization data according to source of payment.*"

The aforementioned forms can be found on the Agency's website at www.tennessee.gov/HSDA. Should you have any questions or require further information regarding this Certificate, please do not hesitate to contact this office.

Sincerely,

Melanie M. Hill
Executive Director

cc: Marthagem Whitlock, TDMHSAS, PRF
Cynthia Tyler, TDMHSAS, Division of Administration and Regulation

STATE OF TENNESSEE
Health Services and Development Agency



Certificate of Need No. **CN1603-012A** is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: Erlanger Behavioral Health, LLC.
975 East 3rd Street
Chattanooga, TN 37403

For: Erlanger Behavioral Health

This Certificate is issued for: To establish an 88 bed mental health hospital with 24 adult beds, 24 geriatric beds, 18 child and adolescent beds, and 22 adult chemical dependency beds.

On the premises located at: Intersection of North Holtzclaw and Citico Ave
Chattanooga (Hamilton County), TN 37404

For an estimated project cost of: \$25,112,600

The Expiration Date for this Certificate of Need is

October 1, 2019

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: August 24, 2016


Chairman

Date Issued: September 28, 2016


Executive Director

Kim Looney, Esq., and Dr. Larry Gurley, addressed the Agency on behalf of the applicant.

Mr. Grandy moved for approval of the modification requesting that other gynecologists be permitted to perform gynecological procedures at the ASTC. Mr. Mills seconded the motion. The motion CARRIED [7-0-0].
APPROVED

AYE: Gaither, Mills, Korth, Taylor, Fleming, Grandy, Doolittle
NAY: None

CERTIFICATE OF NEED APPLICATIONS

Mark Farber summarized the following CON Application:

Ms. Jordan returned to the meeting.

Erlanger Behavioral Health, Chattanooga (Hamilton County), TN – CN1603-012

To establish an eighty-eight (88) bed mental health hospital located at an unaddressed site at the intersection of North Holtzclaw Avenue and Citico Avenue, Chattanooga, (Hamilton County), TN 37404. The estimated project cost is \$25,112,600.

William West, Esq., and Kevin Spiegel, CEO, Erlanger Health System, and Joseph Winick, Senior Vice President of Erlanger Health System, addressed the Agency on behalf of the applicant.

Speaking in support were: Casey Webb, Behavioral Health Navigator, Erlanger Health System, Jan Keys, M.D., Chief Nurse Executive, Erlanger Health System, Brent Turner, President, Acadia Healthcare, David Seaberg, M.D., Chairman of the Department of Emergency Medicine, University of Tennessee Chattanooga, Judge Gary Starnes, Hamilton County, Wanda Mayes, Crisis Intervention Team Manager, Hamilton County, and Captain Charles Lowery, Hamilton County Sheriffs Office.

Speaking in opposition were: Jerry Taylor, Esq., Darrell Moore, President of Parkridge Health System, Melissa Arkin, CEO, Parkridge Valley, and Paul Fuchar, Executive Director, CADAS.

William West, Esq., rebutted.

Jerry Taylor, Esq., provided opposition summation.

William West, Esq., provided applicant summation.

Mr. Mills moved for approval of the project based on the following: 1) Need – It will provide a state-of-the art facility that is the most cost-efficient option the applicant has found. It will serve to meet the needs of additional psychiatric patients in the area based on the need formula. It will provide care for low income and TennCare population regardless of their ability to pay, and it will provide a more efficient process to admit patients in the safest healthcare setting possible; 2) Economic Feasibility – The funding will be through a partnership with Acadia Healthcare with a revolving line of credit, and locating to the new site has proved to be the most cost-efficient option with the space and land restrictions on the main campus; 3) Healthcare that meets appropriate quality standards- In meeting appropriate quality standards of healthcare, they will seek accreditation by the Joint Commission for Healthcare Organizations. They are currently and will continue to be in compliance and in good standing with the Department of Mental Health. They do maintain their own internal medical quality improvement program, and they will continue to meet the conditions of participation for the Center for Medicare and Medicaid services; and 4) The project does contribute to the orderly development of adequate and effective health care by reducing the wait times for the psychiatric patients needing admission into facilities. It will eliminate the necessary stays in the emergency department. It will provide for both voluntary and involuntary admissions. It will provide for training for healthcare professionals and physicians, and it will

serve to reduce the cost of law enforcement transportation, which is a cost to the citizens of Hamilton County. Dr. Fleming seconded the motion. The motion CARRIED [9-0-0]. **APPROVED**

AYE: Jordan, Gaither, Ridgway, Mills, Korth, Taylor, Fleming, Grandy, Doolittle
NAY: None

NHC Healthcare, Cookeville, Cookeville (Putnam County), TN — CN1604-014

The addition of 10 newly constructed Medicare certified SNF nursing home beds and the renovation of 12 existing patient rooms located at NHC HealthCare Cookeville, 815 South Walnut Avenue, Cookeville (Putnam County), TN. The estimated project cost is \$4,806,490.

Dan Elrod, Esq., and Jeremy Stoner, Adminsitrator NHC Cookeville, addressed the Agency on behalf of the applicant.

Summation waived.

Mr. Taylor moved for approval of the project based on the following: 1) Need – The need for the project is met by using the population based statistical methodology formula, which indicates Putnam County needs an additional 166 beds than are presently available. Therefore, the 10 additional beds does meet just a small portion of the county bed need; 2) Economic Feasibility – is met due to the project funding coming from the cash reserves of NHC HealthCare Corporation and the project cost of only \$158.75 per square foot, and the facility projects a positive net operating income of approximately \$47,000 two years after completion of the project; 3) Healthcare that meets appropriate quality standards- although the specific criteria for healthcare that meets appropriate quality standards has not yet been defined, NHC Cookeville facility currently maintains a four-star rating, which is above average on the CMS nursing home compare rating system; and 4) The project does contribute to the orderly development of adequate and effective health care in that the project doesn't duplicate services, doesn't cause undue competition, and does meet the growing consumer demand for private rooms. Ms. Jordan seconded the motion. The motion CARRIED [9-0-0]. **APPROVED**

AYE: Jordan, Gaither, Ridgway, Mills, Korth, Taylor, Fleming, Grandy, Doolittle
NAY: None

Upper Cumberland Orthopedic Surgery d/b/a Tier 1 Orthopedics, Cookeville (Putnam County), TN — CN1604-015

For the acquisition of a Magnetic Resonance Imaging (MRI) unit and initiation of MRI services limited to patients of Tier 1 Orthopedics. The proposed MRI will be located in a freestanding building located at 335 West Spring Street, Cookeville (Putnam County), Tennessee. The estimated project cost is \$1,486,578.29.

Jerry Taylor, Esq., addressed the Agency on behalf of the applicant.

Summation waived.

Dr. Fleming moved for approval of the project based on the following: 1) Need – The volume, though low in the other MRI units, is not so low that with the addition of new physicians, they won't meet need for the MRI within their practice; 2) Economic Feasibility – The financing is already secured; 3) Healthcare that meets - appropriate quality standards- With regard to quality the application of orthopedic surgery uses MRIs in a way that is much more sophisticated than it has been historically; and 4) The project does contribute to the orderly development of adequate and effective health care in that the MRI capability there onsite will definitely contribute to the quality of the care of their patients. Ms. Jordan seconded the motion. The motion CARRIED [9-0-0]. **APPROVED**

AYE: Jordan, Gaither, Ridgway, Mills, Korth, Taylor, Fleming, Grandy, Doolittle
NAY: None

1 recruit, and I think that resulted in four to five
2 actual applications. We've had trouble with recruiting
3 nurses, and for a long period of time, we had to use
4 locum tenens in our hospital, which cost us
5 considerably more than we were paying in salaries.

6 So, yes, it's been a difficult process,
7 and we've typically ran short of our full staffing
8 capacity for the last several years.

9 MR. GAITHER: Thank you. I appreciate
10 that.

11 MR. DOOLITTLE: Mr. Ridgway.

12 MR. RIDGWAY: Yes, for the applicant, a
13 quick question. Is there an intention to change the
14 ownership structure, or is it going to stay 51/49? Are
15 there requirements that Erlanger has to maintain
16 majority ownership?

17 MR. WINICK: Joe Winick, Erlanger Health
18 System. There is not a requirement that I know of, but
19 it is our intent to change the ownership structure once
20 we go through the whole process and do the fair market
21 value evaluations of who's putting what into the
22 venture to the new hospital, so it will change, yes.

23 MR. RIDGWAY: Okay. And then is there a
24 representative from Acadia still with us? I wanted to
25 ask them about staffing and what they do nationally.

1 that may not be clear in the application, but the board
2 governance will be 50/50. The economics may be
3 different, but the board governance will be 50/50.

4 MR. CHRISTOFFERSEN: Mr. Grandy or
5 Mr. Chair, may I interject?

6 MR. DOOLITTLE: Yes.

7 MR. CHRISTOFFERSEN: Thank you. I just
8 wanted to throw this out. It may clarify something
9 that one or more members is wondering or it may not.
10 But if this Certificate of Need is approved, if there's
11 any change in ownership control, which given where it
12 is right now, that would be just about any change of
13 ownership percentage, they would have to come back to
14 the Agency on the general counsel's report for approval
15 if it happens before licensure. If it happens after
16 licensure, they would not need Agency approval unless
17 you make it a condition on the Certificate of Need.

18 MR. DOOLITTLE: Thank you,
19 Mr. Christoffersen. Dr. Fleming.

20 DR. FLEMING: Just a couple of logistical
21 questions for the Erlanger folks or Acadia, either or.
22 The location of this new facility is where in
23 conjunction with the Erlanger hospitals geographically?

24 MR. WINICK: Joe Winick. The new site is
25 two minutes from the main Erlanger campus. It's a